

AIM CEO and NED Breakfast

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Chair: Matthew Blagg, CEO, Criticaleye

NOTE: This event took place at the beginning of June and, therefore, before the 22 June Budget

AIM was founded on attractive tax advantages. However, the threat of increased capital gains tax (CGT) is putting those advantages in danger. The group of CEOs and non-executives of AIM-listed companies at this Criticaleye Breakfast questioned the future of the market and discussed the alternative to AIM.

Coalition Government

There is no firm knowledge of whether there will be changes to either the capital gains tax or the Enterprise Investment Scheme in the 22 June Emergency Budget. "Everyone is obsessed with the deficit and the reductions needed, therefore the real issues on AIM are getting lost in the shuffle," said a Member.

If the tax incentives change, where should organisations go? The main market? The possible increase in CGT is making one CEO look to go private, considering listing on another market not to be an option. Going private or to the Plus market may be the only options with organisations that do not have the market capitalisation to go onto the main list.

If the government wants to decrease the deficit over two terms with only VAT and CGT, they will have to be increased to 22.5 per cent and 50 per cent respectively. This could have a depressed effect on markets and consumers.

"There have been irrational reactions to the cuts required to decrease the deficit. Is the market overreacting to what *could* happen?" asked a delegate.

Banking

Getting debt financing is proving difficult for AIM-listed organisations – banks don't want to engage. "Even getting a reasonable amount of debt is not easy," said a participant.

Another Member asserted that the three main banks are being 'schizophrenic'. They are trying to stop the flow of funds to bad debt but increase the flow to safe havens. The frustrating thing about the banks is that they are desperate to give money to organisations that don't need it, and won't give it to those that do.

"I was quoted 2 per cent over base," said a delegate. "It is 1997 levels of borrowing but with tighter covenants and larger fees."

Banks are now taking more interest in the businesses in which they are investing. It was recommended that it is a good time to get close to a few banks. "Get to know them, especially if you have a healthy business," said a Member. "Build the relationship from a place of strength."

Trends in banking - The weak state of UK banks has left a void that is now being filled by foreign banks. Canadian banks, for example, are purchasing a lot of real estate in London.

Canadian economic model

The group was fascinated with Canada's approach to a recession in the 1990s and felt that the government now has the opportunity to follow the Canadian economic model. Deemed the 'blood bath budget' Canada made cuts to public services and created a time of austerity with the backing of the population.

One Member used the example of a hospital that had been demolished recently as the government could not afford to run it. This, some believe, is the approach that the UK should be taking with the upcoming budget.

Pension funds – There is a worry about where pension funds are investing. Many believe that they should take the lead from Canada by cutting out the middleman and investing directly in pension funds. For example, the Ottawa Teachers Fund just completed the purchase of Camelot.

Consumer sentiment

The group felt that the government cannot possibly make the cuts that are needed without taking out many jobs. Consumer facing organisations are worrying about the retail effect of mass unemployment. One delegate has a nagging feeling that "we are not yet out of the water".

Consumer habits are changing and there has been a move from the premium market to the value market, even among those that are still employed and have disposable income. These people don't want to be seen to be 'wasting' money.

There are also questions about whether people will come to terms with working on lower salaries. "Are there more imaginative ways of rewarding people?" questioned a participant. Incentives have to be very clear and it was felt that NEDs have to take more onus on remuneration and become more involved in the budgeting process.